CENTRAL STEERING COMMITTEE FOR HOUSING AND REAL ESTATE MARKET POLICY

The International Conference 2010

Housing and Real Estate Market Development – Worldwide Experience and Options for Vietnam

26 – 28 November 2010
Hanoi, Vietnam

MALAYSIA

member country of

AsiaConstruct

THEME PAPER

AMANAHRAYA
REIT MANAGERS

Real Estate Investment Trust & Sustainable Urbanization in Real Estate Sector

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1. INTRODUCTION

The term REIT stands for Real Estate Investment Trust ("REIT"). It is a trust fund that holds / invests in rental properties. Its major incomes are rental income and it is required to distribute most of its profit as dividend to its holders. REIT can be one of the very exciting instruments for the purpose of cumulating income generating assets.

REIT structure is an ownership and operating construct wrapped around properties that might otherwise be in institutional real estate investment portfolios (REITs and Real Estate: A Perfect Pair; Peyton, Park & Lotito; 2007).

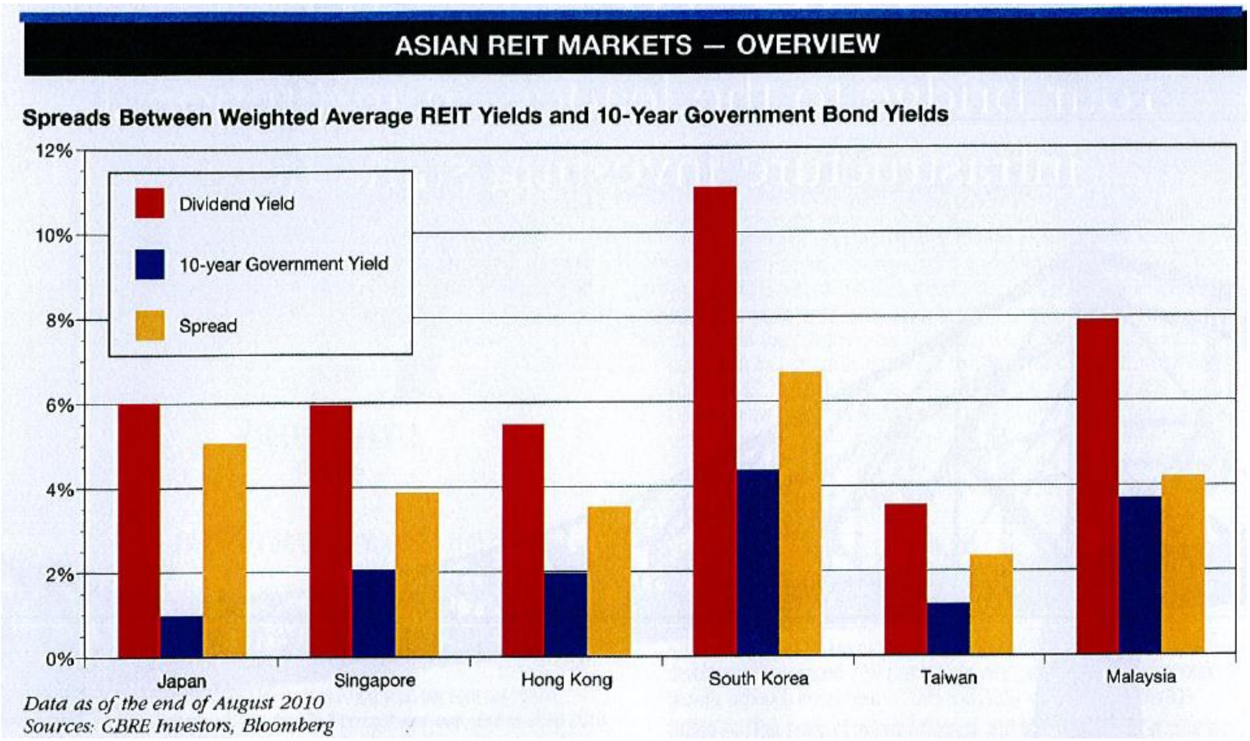
2. ASIA (EXCLUDING JAPAN) REIT PERFORMANCE

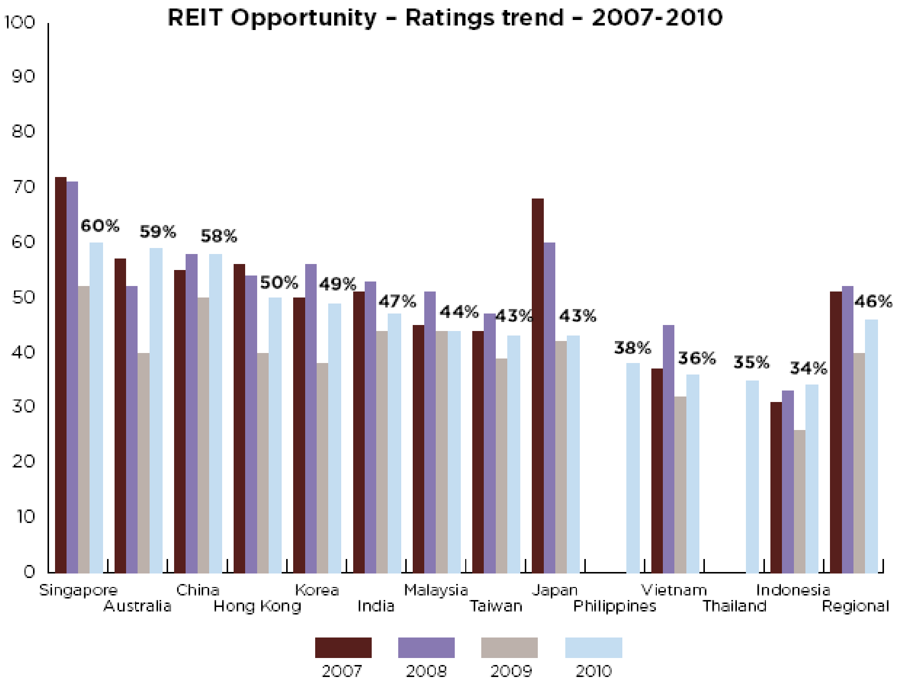
Property is generally considered to be a lagging indicator of economic downturns since investors flee falling equity markets to the perceived safe haven of real estate. Only later, when unemployment threatens, does the property market feel the pinch. In this most recent downturn, however, while underlying property values have still lagged the wider economy, REIT stocks led other asset classes as prices declined and investors quickly sold down their positions. Perhaps the catalyst for this downturn — a dislocation of credit markets — holds the key. REITs are the public face of a very capital-intensive industry that requires substantial levels of financing. The evaporation of credit exposed the vulnerability of an illiquid asset class, and the liquidity of the public markets provided investors with an exit — albeit at a price.

But just as they led the market into the downturn, global REITs are leading the way out. Share prices have rebounded sharply since March 2009, with many markets surging 60%–100% from their lowest points (although prices remain below the peaks of a few years ago). Since then, REITs have raised billions in capital through secondary offerings, and they are using it mainly to reduce their debt, recapitalize their balance sheets and position themselves for growth.

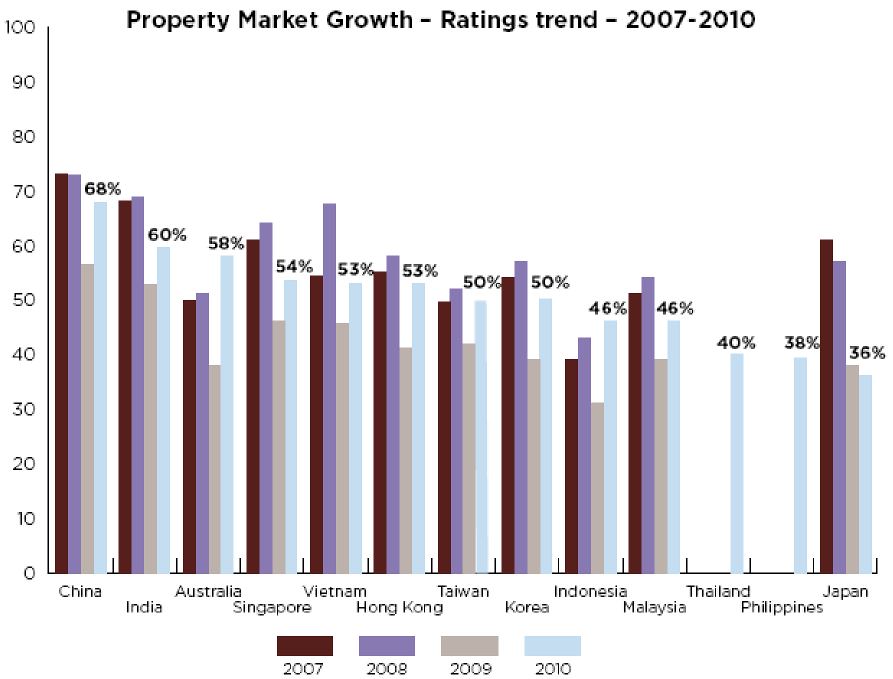
While globally, the REIT experience was consistent, with significant drops in market capitalization and negative rates of return, the Asian REIT markets, excluding Japan, had a milder decline and have recovered. Rates of return in South Korea, Malaysia and Hong Kong are overall in positive territory at the end of three years. Of the Asian markets analyzed (again excluding Japan), only Singapore recorded a negative three-year rate of return, of -4%. Compared with Australia, the UK and the US (-26%, -25% and -14%, respectively), the Asian region has performed remarkably well. In fact, South Africa was the only REIT market outside of Asia that recorded a positive three-year return.

This positive performance can be attributed to a combination of factors. First, **Asian REITs continued to follow a more passive investment model** (and therefore a perceived lower risk profile) than some other global markets. And second, many investors see Asia **as a region with a more promising long term growth story**. The global REIT market is perhaps now becoming a barometer of broader risk-return sentiment around the world.





Source: Asia-Pacific REIT Survey June 2010 (The Trust Company & Baker & McKenzie)



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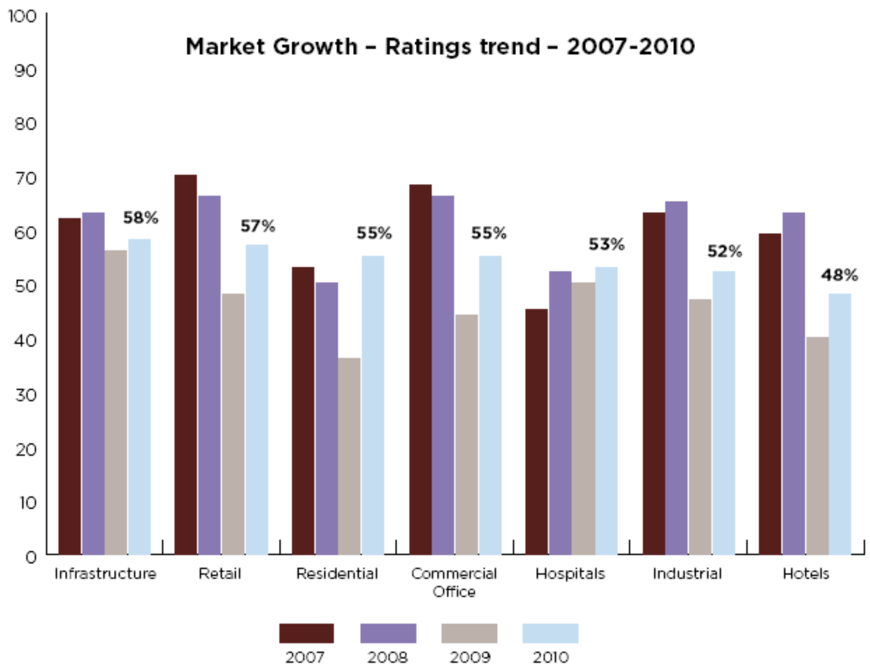


Source: Asia-Pacific REIT Survey June 2010 (The Trust Company & Baker & McKenzie)

Country Rating 2010

	Overall potential	% +/- 2009	property market growth	% +/- 2009	REIT opportunity	% +/- 2009	Regulatory support	% +/- 2009
SINGAPORE	62%	5%	54%	8%	60%	9%	70%	-3%
AUSTRALIA	61%	15%	58%	20%	59%	20%	66%	4%
CHINA	56%	10%	68%	11%	58%	8%	44%	10%
HONG KONG	53%	9%	53%	12%	50%	10%	55%	6%
INDIA	48%	5%	60%	7%	47%	2%	37%	5%
KOREA	48%	10%	50%	11%	49%	11%	46%	9%
TAIWAN	46%	6%	50%	8%	43%	4%	43%	6%
MALAYSIA	45%	2%	46%	7%	44%	0%	46%	0%
JAPAN	44%	2%	36%	-2%	43%	2%	53%	6%
VIETNAM	41%	8%	53%	8%	36%	5%	32%	11%
PHILIPPINES	39%	n/a	38%	n/a	38%	n/a	42%	n/a
THAILAND	37%	n/a	40%	n/a	35%	n/a	37%	n/a
INDONESIA	37%	11%	46%	16%	34%	8%	30%	10%
REGIONAL AVERAGE	47%	5%	50%	8%	46%	5%	46%	5%

Source: Asia-Pacific REIT Survey June 2010 (The Trust Company & Baker & McKenzie)

3. ELEMENTS OF URBAN FORM

There are four main elements that make up urban form. These are **land use, density, position / transport infrastructure and characteristics of the built environment**. The dominant land use is residential but a functional urban area requires industrial, retail, offices etc. and some of these uses will be located together in one building, i.e. mixed land use (as distinct from an area with a mix of uses). Density has a number of sub-elements - gross population, net residential, commercial and industrial employment densities.

Position / Transport infrastructure is closely linked to the idea of accessibility and is related to the ease at which buildings / spaces / places can be reached. Characteristics of the built environment, is a concept encompassing various features of an urban area such as building type, building height and intensity of land use.

4. ASSETS UNDER REIT

REIT returns averagely in develop market is around 3-5% depending on its individual performance. However, REIT in Malaysia is very attractive because it is in a so-called last phase of developing nation before developed.

For the purpose of explaining the relation between REIT and the Sustainable Urbanization in the Real Estate Sector for this paper, we shall zoom in directly into the REIT market in Malaysia.

Malaysia property values are still a gap behind many developed countries in Asia. This emerges as an opportunity with an average attractive yield between 6-8% which is higher than other major developed countries. Especially when REITs are in the infant stage in Malaysia, most REIT managers are with option and plan to grow their property portfolio to trade or manage rental in order to achieve even a better yield for investor.

As Malaysia property value is undervalued for decades, there will be a high potential of asset revaluation will bring capital growth to the investor. There is a potential of upside between 20-30% around five (5) years period. An example of an early REITs launched in 2006 – STAREIT. It has till date performed a 7% dividend yield based on the NTAB of RM0.97. If compare to Fix Deposit of 3-4%

and even with government based senior bond that offer 5.5%. STAREIT becomes much attractive and excluding the potential of its asset revaluation that includes all its prime location properties located at Bintang Walk, Kuala Lumpur.

REIT is not just having the existing property to rent out, manage and collect rental. A high performance REIT is like your property fund manager. They will develop new opportunities, acquire more properties into their portfolio and to some countries, jointly develop property projects. This will provide even a higher potential return compare to those low to moderate risk investment instruments. Thus, REIT is the best vehicle and good investment tool for your long term retirement plan. REIT will be attractive with a fair risk to be tolerated in compare to Fix Deposit. As equities are high risk to some extent, bonds are relatively moderate return but without asset revaluation opportunity, investing in property directly will require high investment fund and it is difficult to manage. REIT will be a good choice as alternative asset class for investment.

The latest two (2) REITS was listed on the main market of Bursa Malaysia are Sunway Real REIT and CapitaMalls Malaysia Trust .

Sunway REIT's portfolio assets are in the retail, hospitality and office segments with the bulk of revenue derived from properties in the Sunway Integrated Resort City in Bandar Sunway, Petaling Jaya, Selangor. CapitaMalls Malaysia Trust is the country's largest pure-play shopping mall REIT comprising Sungei Wang Plaza in Kuala Lumpur's Bukit Bintang tourist belt, The Mines in Seri Kembangan and Gurney Plaza in Penang.

The table below outlines the asset class of Malaysia REIT market.

Figure 7 : Classification of M-REITs

REIT	Office	Retail	Industrial / Warehouse	Hospitality	Others
Sunway	●	●		●	
CapitaMalls		●			
Starhill		●		●	
Al-Hadharah					● (plantation)
Axis	●		●		
Al-Aqar KPJ					● (hospital)
AmFirst	●	●		●	
Quill	●	●	●		
AmanahRaya	●	●	●	●	● (education)
Hektar		●			
Tower	●				
UOA	●				
Atrium			●		

Source: ECM Libra

The sector of properties related to the REIT market in Malaysia varies from office building, retail mall, industrial / warehouse, hospitality, plantation, hospital and education.

5. AMANAHRAYA REIT – A CASE STUDY OF SUSTAINABLE URBANIZATION IN REAL ESTATE SECTOR

AmanahRaya REIT ("ARREIT") was listed on Bursa Malaysia on February 2007 with eight (8) properties comprising office buildings, hotels, industrial properties and higher learning institutions building. It is the first REIT in Malaysia established by a Government-owned company ("GOC") with total injection value of RM336.5million and the first REIT in Malaysia rated by Standard &Poor's as an investable grade REIT at BBB-.

In December 2007, ARREIT acquired five (5) properties at a total acquisition value of RM308.7 million and became the second largest REIT in Malaysia in terms of properties value with total asset value of RM645.5 million. ARREIT distributed 100% of its income – a total dividend distributed from listing date to 31 Dec 2007 was 5.4412 sen per unit, translating to an annualised yield of 6.9% (based on RM0.94 sen).

Total asset value was revalued in November 2008 from RM645.52 million to RM686.33 million. In December 2008, ARREIT declared a total dividend of 7.0105 sen per unit which translated to a dividend yield of 7.46%, which is above forecasted yield of 7.40%. In August 2009, Standard & Poor's reaffirmed investable rating of 'BBB-" for AR REIT with a standalone rating of 'BB+'.

In March 2010, ARREIT managed to complete a successful refinancing exercise of the existing loan of RM168 million. The rate secured was at 4.45% which is 80 basis points lower from 5.25% (secured in 2007). The refinancing exercise is translated to a saving of RM1.3 million a year which should then be distributed to the unitholders.

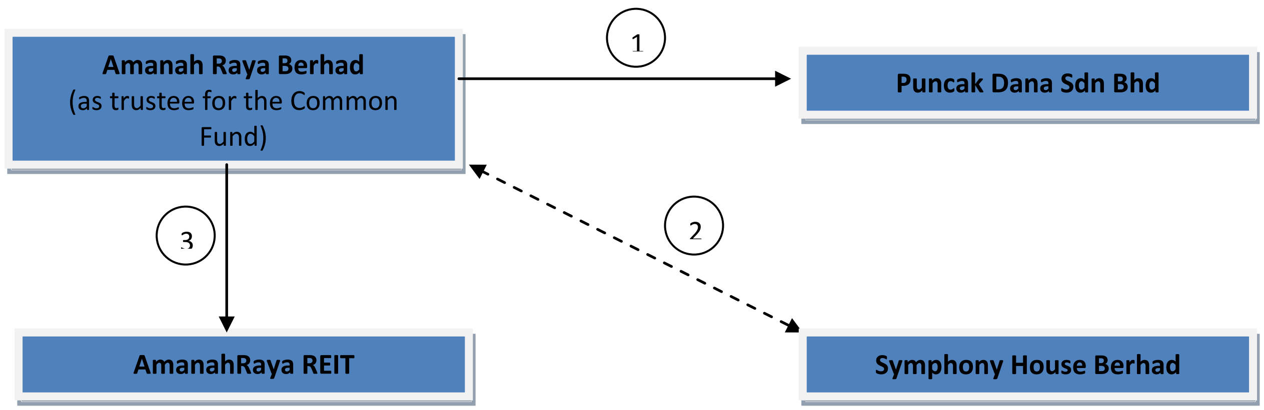
ARREIT completed its acquisition of Selayang Mall (retail mall) and Dana 13 (office tower) for a total consideration of RM227 million in May 2010. This enlarged the total asset size from RM686.33 million to RM913.33 million and increase by 33%. Another asset sector added to the portfolio which is retail (Selayang Mall).

For the purpose of this paper, we would like to take Dana 13 as case study for this Theme Paper. This is a good case study to show how ARREIT position this as a sustainable structure for the urbanization in real estate sector. Details of Dana 13 are as follows:

Proposal	Acquisition for cash consideration of RM99 million.
Description	A 13-storey stratified office building with 300 parking bays.
Location	Off Jalan Lapangan Terbang Subang, PJ
Age of Building	CF obtained from August 2009
Existing Use	Office building

Current Occupancy Rate	100% (Master Lessee: Symphony House Berhad, one of Malaysia's leading business process outsourcing company's and is listed on the Main Market of Bursa Securities.)
Net Lettable Area (sq. ft.)	268,850 sq ft
Date of Lease Agreement	3 September 2007
Tenure of land	Leasehold for a term of 99 years expiring on 4 September 2097 (unexpired term of 88 years)
Master Lease Tenure	10 years from 2009 (2019)
Rent Review Frequency	3+3+2+2
Market Value	RM107.8m (as at 2 November 2009)
Current Rental per month	RM591,470

Dana 13 is a 13-storey stratified office building with 300 parking bays. It is occupied by Symphony House Berhad ("Symphony House"), one of Asia's leading business process outsourcing outfit that is listed on the Main Board of Bursa Securities.



The structure above shows the process flow of ARREIT involvement in real estate transaction of Dana 13.

Puncak Dana Sdn Bhd (“Puncak Dana”) is the master developer for the entire development. Amanah Raya Berhad (“ARB”) acquired the office building from Puncak Dana in September 2007. ARB paid 10% of the purchase price upon signing the Sale & Purchase Agreement in 2007 and the balance 90% of the purchase price was paid in September 2009 upon issuance of the Certificate of Fitness of the building.

In September 2007, ARB signed an Agreement to Lease with Symphony House. Based on the agreement, Symphony House has agreed to lease the entire building from ARB for a period of ten (10) years with pre-determined four (4) time rental increment within the tenure. The rentals are on a ‘triple net’ basis.

In May 2010, ARREIT acquired the property from ARB for a total consideration price RM99 million where the market value stood at RM107.8 million as at inspection date 2^{nd} November 2009 by a registered valuer. ARREIT also signed a Novation Agreement with ARB and Symphony House to Novate the existing Lease Agreement.

ARB and Symphony House have executed a supplemental lease agreement to amend the terms of the existing lease agreement, whereby Symphony House will receive a rent-free period of two (2) months as Symphony House require two (2) months to proceed with works to upgrade the High Tension cables / system and has applied for MSC status.

The example above clearly shows the structure of how we position ARREIT as the vehicle to assure the important role to develop a sustainable impact on the real estate sector.

ARREIT’s involvement in this structure can be seen as an exit strategy for ARB after the acquisition of the property but nevertheless it is clear that upon the disposal of the property to ARREIT, the Managers assures that the property is backed by a long term lease with a reputable party.

This structure also shows that good potential buildings can be secured by REIT if the REIT is backed by a strong promoter. ARB as the promoter of ARREIT acquired the building during the construction period and later injected into ARREIT. The disposal of the building into ARREIT gives ARB the opportunity to scout for other good potential buildings in the market. By having this sort of structure, the real estate market will be able to generate more cash from the public to acquire good properties in good locations.

ARREIT as one of the biggest REIT in Malaysia plays an important role in the sustainability of the real estate sector in Malaysia. As shown in the table earlier, ARREIT has a diversified portfolio that invest in most of the sector in the real estate market (i.e. office building, retail mall, industrial / warehouse, hospitality, and education). These sectors play an important role in the growth of the country’s economy and to ensure sustainable urbanization in the real estate sector.